

Message Text

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ORIGIN EUR-12

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DRAFTED BY DOD/OASD/ISA:WGEORGE
APPROVED BY EUR/RPE:DHSWARTZ
EUR/RPM:TSVAGE
COMMERCE/BEA:CWAITE
-----242333Z 029374 /75
P 242144Z MAY 77
FM SECSTATE WASHDC
TO USMISSION NATO PRIORITY

C O N F I D E N T I A L STATE 119767

E.O. 11652: GDS

TAGS: EFIN, NATO

SUBJECT: EFFECTS OF INFLATION ON ALLIED DEFENSE
-- EXPENDITURES

REF: (A) BILLY-PAPENDORP LETTER OF APRIL 28, 1977,
-- (ED/77/46); (B) USNATO 3686

1. SUMMARY: WE HAVE PROBLEMS WITH FACT THAT INTER-
NATIONAL STAFF HAS FAILED TO ACCEPT US REVISED ED/EC/77/8.
BECAUSE PREPARATIONS WILL BE INADEQUATE WE DOUBT
WISDOM OF A JUNE 23 EXPERTS MEETING. END SUMMARY.

2. US REVISED DRAFT OF ED/EC/77/8 PROVIDED DATA ON A
CALENDAR YEAR BASIS THROUGHOUT ALL TABLES, INCLUDING
TABLE 1. HOWEVER, THE REVISED DATA WERE UNINTENTIONALLY
OMITTED FROM ROWS 1, 2, 3, AND 4 OF TABLE 1. A REVISED
COPY OF TABLE 1, INCLUDING THE CORRECT DATA FOR ROWS
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1, 2, 3 AND 4 IS BEING SENT BY US ARMY COMMUNICATIONS
DIRECTLY TO PAPENDORP. ACTION REQUESTED: PLEASE
ASK BILLY TO SUBSTITUTE CORRECTED TABLE 1, PAGE 4, IN
COPIES OF ED/EC/77/8 REVISED BY THE US.

3. IN REF A, BILLY FORWARDED AN UPDATED COPY OF IS
ORIGINAL JANUARY 28 DRAFT. IS APPARENTLY USED US

REVISED DRAFT ONLY TO OBTAIN DATA ON PRODUCTION OF MANUFACTURING INDUSTRIES IN CURRENT AND CONSTANT PRICES THAT THEY HAD BEEN UNABLE TO OBTAIN FROM OECD. ACTION REQUESTED: PLEASE INQUIRE AS TO THE STATUS OF (A) THE US REVISED DRAFT OF ED/EC/77/8 AND (B) THE IS APRIL 1977 UPDATE OF ITS JANUARY 1977 DRAFT OF ED/EC/77/8.

4. US EXPERTS, MR. GEORGE (OASD/ISA) AND MR. WAITE (COMM/BEA) PREFER TO USE THE CALENDAR YEAR DATA THAT WE PROVIDED IN US REVISED ED/EC/77/8, INCLUDING ALL OF THE DATA ON THE GOVERNMENT EXPENDITURES TWO DEFLATOR SYSTEMS. ALL OF THE US DEFENSE FINANCE DATA ON A CALENDAR YEAR BASIS ARE EITHER IN, OR ARE THE COMPONENTS OF, US ANNUAL REPLIES TO THE DEFENSE PLANNING QUESTIONNAIRES. NO MATTER WHAT DEFLATOR METHODOLOGY, OR METHODOLOGIES, ULTIMATELY MAY BE OFFICIALLY ACCEPTED, IT IS LIKELY THAT SOME MODERATE ADJUSTMENT IN THE DETAILS OF DPQ REPORTING MAY BE CONSIDERED. SINCE PURPOSE OF CURRENT EXERCISE IS TO DEVELOP AN ACCEPTABLE DEFLATOR METHODOLOGY, WE DO NOT WANT TO BE LIMITED TO FISCAL YEAR DATA IN THE DPQ. ACTION REQUESTED: PLEASE ASK BILLY WHETHER HE WILL CONCUR IN OUR SUGGESTION THAT US REVISED ED/EC/77/8 ON A CALENDAR YEAR BASIS BE ACCEPTED AS OFFICIAL BASIS FOR DISCUSSION IN PREPARATION FOR NEXT MEETING.

5. WE DID NOT PROVIDE DETAILED COMMENTS ON ORIGINAL JANUARY 28 DRAFT OF ED/EC/77/8 BECAUSE OUR COMPREHENSIVE CONFIDENTIAL

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REVISED PAPER ON A CALENDAR YEAR BASIS ADDRESSED ALL PROBLEMS AND WAS INTENDED TO REPLACE ENTIRE JANUARY 28 DRAFT. SINCE ORIGINAL JANUARY 28 VERSION OF ED/EC/77/8 HAS NOW BEEN REISSUED AS AN UPDATED APRIL 1977 DRAFT, CERTAIN COMMENTS APPLY TO BOTH. FOR EXAMPLE, ALL OF THE DATA ON US DEFENSE EXPENDITURES IN ROWS 1, 2, 3 AND 4, ON A FISCAL YEAR BASIS, IN TABLE 1 DO NOT CORRESPOND TO US REPLIES TO THE ANNUAL DPQS, BECAUSE ALL DATA HAVE BEEN ENTERED FOR ONE FISCAL YEAR EARLIER THAN REPORTED BY THE US. ON THIS BASIS, ALL CALCULATIONS AND RESULTS IN ALL OTHER TABLES IN THE JANUARY 28 DRAFT AND APRIL 1977 UPDATE ON A FISCAL YEAR BASIS CANNOT BE VALID. ACTION REQUESTED: PLEASE SUGGEST US REVISION ON CALENDAR YEAR BASIS BE ISSUED AS BASIS FOR DISCUSSION AT ANY FUTURE MEETING.

6. REGARDING REF B, THERE STILL IS NO AGREED US PAPER. COPIES OF CANADA AND ITALY PAPERS NOT YET RECEIVED. OUR EXPERTS NEED ADEQUATE TIME (SEVERAL WEEKS) TO

STUDY AND WEIGH RESULTS IN PAPERS OF MOST (IF NOT ALL) COUNTRIES WELL IN ADVANCE OF ANY MEETING. EXPERTS IN OTHER COUNTRIES PROBABLY ARE IN THE SAME POSITION. IN FACT THEY CANNOT HAVE RECEIVED AN AGREED US PAPER. THIS IS NOT A SATISFACTORY ARRANGEMENT IF A MEETING IS TO BE FRUITFUL. WE BELIEVE GOOD PREPARATIONS ARE NEEDED FOR PROGRESS AT ANY MEETING. IT NOW APPEARS THAT PREPARATIONS CANNOT BE COMPLETED IN TIME FOR A MEETING BEFORE LATE SEPTEMBER OR EARLY OCTOBER 1977.

7. FOR REASONS GIVEN IN PARA 6, AN EXPERTS MEETING, IF HELD ON JUNE 23, IS MUCH LESS LIKELY TO RESULT IN AN ADEQUATE EXCHANGE OF VIEWS OR AN AGREEMENT ON A COURSE OF ACTION TO RECOMMEND TO NATIONAL AUTHORITIES THAN IF HELD IN AUTUMN. ALL COUNTRIES NEED TIME NOT ONLY TO RECEIVE AND READ ALL COUNTRY PAPERS, BUT ALSO TO MAKE COMPARISONS OF THE EFFECT OF EACH KIND OF DEFLATOR

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METHODOLOGY ON ALL COUNTRIES. THE US EXPERTS PLAN AND EXPECT TO MAKE A COMPREHENSIVE SUMMARY AND ANALYSIS FOR ALL COUNTRIES, ONCE THE COUNTRY MATERIAL IS AVAILABLE. THIS LEVEL OF PREPARATION IS NEEDED AS A BASIS FOR ACHIEVING A CONSENSUS, FOR MAKING A RECOMMENDATION TO NATIONAL AUTHORITIES AND FOR GAINING APPROVAL BY NATIONAL AUTHORITIES FOR ANY RECOMMENDATION THAT IS MADE.

8. WE DO NOT WISH TO APPEAR TO BE OBSTRUCTIONISTS. THEREFORE, IF IT IS DECIDED TO HOLD A MEETING ON JUNE 23, IN SPITE OF THE REASONS ADVANCED ABOVE FOR AN AUTUMN MEETING, MR. GEORGE WILL ATTEND. HOWEVER, IN OUR JUDGEMENT A JUNE 23 MEETING COULD NOT SUBSTITUTE FOR A FULLY PREPARED EXPERTS MEETING IN THE AUTUMN. VANCE

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